



HOUSE OF COMMONS  
CHAMBRE DES COMMUNES  
CANADA

## **Standing Committee on Natural Resources**

---

RNNR • NUMBER 042 • 2nd SESSION • 41st PARLIAMENT

---

**EVIDENCE**

**Thursday, December 4, 2014**

—  
**Chair**

**Mr. Leon Benoit**



## Standing Committee on Natural Resources

Thursday, December 4, 2014

• (1150)

[English]

**The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)):** Good morning, everyone. Thank you very much for coming here this morning. I apologize for the disruption. It's not abnormal at this time of the year, but you never know when it's going to happen, and it did.

We have three groups of witnesses here today. You're probably all prepared for presentations of about 10 minutes per group. I think what we'll do is hear from all of the witnesses, as you've come a long way and you've taken time already from your duties. We'll just hear from the witnesses and we probably won't have any time for questions, unfortunately, but at least we can get the story from the witnesses. I think if we hear from all three groups, we will get a good starting story, and then at our next meeting we'll hear from witnesses to follow up on the information we get today. At least you've come here and you've been given a chance to present your case.

Again, thank you all for being here.

We will hear the presentations in the order they appear on the agenda for the first and second hour, starting with those scheduled from the Department of Natural Resources for the first hour. We have with us today Terence Hubbard, director general, petroleum resources branch, energy sector; Douglas Heath, director, oil sands and energy security division, energy sector; and Ruth Talbot, deputy director, fuels and refining oil sands and energy security division. Welcome to you all.

We'll start with your presentation, Mr. Hubbard, for up to 10 minutes, and then we'll get to the other presentations after. Thank you very much for accommodating us in this way. We do appreciate it.

**Mr. Terence Hubbard (Director General, Petroleum Resources Branch, Energy Sector, Department of Natural Resources):** Thank you, Chair.

Good morning, members. It's a pleasure to be here today to support your study on propane markets.

Natural Resources Canada seeks to enhance the responsible development and use of Canada's natural resources. The department develops policies and programs to enhance the contribution of the natural resource sector to the Canadian economy. This study is timely as we head into the winter months and the importance that the propane markets play for Canadians who rely on this fuel to heat their homes.

In my presentation this morning, I'll briefly outline the federal role with respect to energy supplies before getting into the events that took place last winter and our response to them and the market outlook for the propane industry this year.

As a clean-burning, cost-effective fuel, propane plays an important role in Canada's energy mix. In addition to heating Canadian homes, propane markets support thousands of jobs and economic benefits to many communities across Canada. Canadian propane production mainly comes from natural gas development with small amounts also produced as a by-product of the crude oil refining process. Approximately 192,000 barrels a day of propane are produced in Canada, 85% of which comes from natural gas production.

The Canadian propane industry is fully integrated as part of the North American market for energy. Canada produces more propane than it consumes domestically and exports the surplus product to the U.S., our only export market for propane. Canada also imports small volumes of propane, primarily into eastern Canada. Again, that's just a sign of the integrated nature of the market.

In terms of the management of resources, this is a shared responsibility between the federal and provincial governments. The provinces are the owners of the resources within their provincial boundaries and are responsible for their development. The federal government is responsible for the management of energy resources on frontier or federal lands. The National Energy Board regulates international and interjurisdictional movement of energy and energy goods. The government is also involved in energy matters to the extent of its interest in economic development and energy security, and plays an important role in promoting energy efficiency and alternative energy sources.

The federal government's overall policy is to follow a market-based approach to energy development. Markets are the most efficient means of ensuring adequate supply, demand, prices, and trade while ensuring a competitive and innovative marketplace.

That being said, the Government of Canada has taken significant steps over the last number of years to support the responsible development of the energy sector, including: establishing a modern, effective, and efficient regulatory system with clear timelines to support investment decisions; building world-class safety systems for rail, tankers, and pipelines around the principles of prevention, preparedness, and response; developing new partnerships with aboriginal communities to support the development of these resources; providing investments in innovation and energy use; and promoting international trade and a competitive investment environment.

The provinces and territories, as I mentioned, are primarily responsible for the development, supply, and use of energy within their provincial boundaries. The provinces also benefit primarily from the production and collection of royalties and taxes from this development. Some of the provincial jurisdictions do regulate energy pricing and distribution within their jurisdictions. For instance, Prince Edward Island, Newfoundland and Labrador, New Brunswick, and British Columbia have all chosen to regulate markets in some manner.

In terms of authorities in an emergency or a supply disruption, the provinces are generally the first line of defence in this situation. For example, the Government of Ontario has the Emergency Management and Civil Protection Act, which establishes the authority for the province to implement emergency orders in the event of a provincial emergency situation. These would be temporary measures that could be implemented to help respond to a short-term disruption.

The federal government's role in the event of an energy supply disruption is more limited. Federal measures can only be implemented in the event of a national emergency and following the request of a province. The federal government has authorities under the Emergencies Act that could be implemented in such a situation, but these measures must be warranted under the circumstances.

• (1155)

In terms of the events of last winter, many Canadian residential propane customers in eastern Ontario and Quebec experienced propane supply interruptions and higher than normal prices. As a result, we saw wholesale prices for propane increase from about 40¢ per litre at the beginning of the season to above 76¢ per litre in major trading hubs in Edmonton and Sarnia. At the retail level, this led to prices as high as \$1.10 per litre.

As I previously mentioned, the provincial governments had primary responsibility for responding to these events. That said, the federal government, recognizing the impact that this supply disruption could potentially have for Canadian families, particularly those relying on the fuel to heat their homes, asked the Competition Bureau and the National Energy Board to do a joint investigation at the request of both the Minister of Natural Resources and the Minister of Industry—and I'm certain you'll hear more about that in a few moments—to look at the factors that led to the propane market issues and identify what the contributing issues were behind the price increases and the scarcity issues.

The National Energy Board is Canada's energy regulator and is responsible for managing supply and demand scenarios for all

energy commodities, including propane. The Competition Bureau is responsible for ensuring a competitive marketplace in Canada. These two organizations were well situated to carry out this study and provide findings and recommendations to the government.

The final report coming from the Competition Bureau and the National Energy Board concluded that the events last winter were the result of a combination of various unusual factors, including unusually high demand in the U.S. for propane for crop-drying purposes, low inventories heading into the winter season, unusually cold weather here in Canada which led to unusually high demand for propane, as well as, given the cold weather, interruptions to the logistics network at the local level, which led to some of the temporary supply issues that we experienced last winter.

The report also concluded that these localized shortages of propane were not indicative of long-term supply issues within the Canadian marketplace but were really the contribution of a variety of unusual extraordinary circumstances, if you will. In addition, our colleagues at the Competition Bureau did not uncover any evidence of uncompetitive behaviour in the marketplace during this period of time.

In terms of the current market situation going into this winter, propane prices have fallen considerably and propane inventories have grown significantly. Here in Canada propane inventories are at an 11-year high heading into this winter, and they're at record levels in the U.S. As a result, propane prices heading into the winter are significantly lower than they were at this point last year. In Edmonton, they're 30% lower than at this time last year, and they're 18% lower in Sarnia. As well, we anticipate that the demand in the U.S. for crop drying will not be as significant, and so, overall it appears that we're in a strong position heading into this winter.

To close, the propane market issues that we experienced last winter were not indicative of long-term supply issues within the Canadian market. Again, we see that industry has responded by preparing and building inventories this year in advance of the winter heating season.

The federal government, for our part, is committed to continuing the work we do at Natural Resources Canada to monitor market developments and, working with our provincial colleagues, to ensure a stable, reliable supply of energy in Canada.

I'll close there, Chair. Thank you.

• (1200)

**The Chair:** Thank you very much, Mr. Hubbard, Mr. Heath and Ms. Talbot, from the Department of Natural Resources.

Just to be clear, the other two groups we have are from the Competition Bureau and the National Energy Board, who together did a study on propane spawned by the shortages and high prices last year.

We look forward to hearing what you have to say about this. We'll start with the witnesses from the Competition Bureau. We have Martine Dagenais, associate deputy commissioner, economic policy and enforcement, and Greg Lang, senior competition officer.

Welcome, both of you.

After the presentation from the Competition Bureau, we will get to the witnesses who are with us by video conference from the National Energy Board.

Go ahead, please, with your presentation, for up to 10 minutes.

**Ms. Martine Dagenais (Associate Deputy Commissioner, Economic Policy and Enforcement, Competition Bureau):** Good morning, Mr. Chair. Thank you for inviting us to appear today to discuss the 2014 propane market review which was conducted in collaboration with our colleagues at the National Energy Board.

My name, as you said, is Martine Dagenais and I am the associate deputy commissioner responsible for economic analysis and advocacy in the competition promotion branch of the Competition Bureau. I am accompanied by my colleague, Greg Lang, senior competition officer, competition promotion branch.

The winter of 2013-14 was unusually and unexpectedly cold. The extreme temperatures in large parts of the country had a significant impact on Canadians. Those using propane for home heating had the double shock of cold weather and dramatic increases in propane prices. This was especially pronounced in eastern Ontario and western Quebec. Of course, it's a natural functioning of the market that where there is high demand for a finite good, and propane like all energy is a finite good, prices tend to rise. We see this in peak pricing for electricity. At the same time, sudden unexplained and higher than normal price peak spikes could give rise to competition concerns, and when it comes to energy prices in the dead of a hard Canadian winter, public policy concerns as well.

In this light, on February 4, 2014, the Minister of Natural Resources and the Minister of Industry asked the Competition Bureau and the National Energy Board to work together to review issues in the Canadian propane market to determine, among other things, if this situation was the result of a competition-related issue.

In a nutshell, we at the bureau do three things. First, where there is evidence of anti-competitive activity, we investigate and enforce the Competition Act. Second, we make our presentation to regulatory bodies at all levels of government in Canada to advocate for greater competition in various markets. Third, where there are concerns about competition issues in a given market, the bureau can provide advice and information about what might be happening in that market.

The bureau, working with the NEB, conducted a thorough study of the propane market. We found that the price spikes were the result of a unique combination of the following factors: unusually cold weather leading to high demand, high U.S. agricultural demand, lower than normal inventories, and rapidly growing U.S. overseas exports. Although there was a dramatic increase in prices, the bureau did not find evidence to conclude that anti-competitive activities were the cause of these increases.

In the remaining time, I will set out the bureau's methodology in conducting the market study and then discuss in greater detail our findings.

How did we conduct the market study? Three elements informed the bureau's analysis: information shared from the NEB, interviews with market participants and stakeholders, and a quantitative analysis of wholesale propane pricing in Canada.

First, the information shared by the NEB was instrumental to the bureau's analysis for two reasons. For one thing, the bureau doesn't actively monitor all sectors of the Canadian economy. While we strive to develop internal expertise in specific areas, we do need to rely on specialized agencies and market actors for information about specific markets such as the one for propane. For another, the NEB has a wealth of current information about the energy sector and the propane industry, information that we both put to excellent use in completing our analysis.

Second, a market study to be credible should involve market participants and stakeholders. The bureau completed interviews with 68 market participants, consumer associations, and other government agencies. The purpose of this was twofold: first, to gather information to understand the structure and dynamics of Canadian propane markets; and second, to solicit marketplace evidence of any potential anti-competitive behaviour that may have taken place in those markets.

• (1205)

Let me add that this was not a formal inquiry under the Competition Act. The bureau's review relied on the voluntary participation of industry stakeholders. Without the willing and strong cooperation of market participants and stakeholders, our analysis would have been considerably less rich, and so I thank them for their participation.

Finally, the bureau used the results of these interviews, coupled with both non-public and public information from across Canada and the U.S. to conduct a quantitative analysis of wholesale propane pricing in Canada.

[*Translation*]

Let us now turn to the bureau's findings, which I group into three questions: What are the characteristics of the propane market in Canada? What are the problems we observed within this market? What are the causes of those problems?

In Canada, the propane market is marked by two characteristics: a long supply chain and deep integration with the U.S. market. Propane is processed, stored, transported and distributed across a broad supply chain. The Canadian and American propane industries are integrated, and Canadian propane prices, supplies and infrastructure are linked to major propane trading hubs in the United States.

What were the problems? In the winter of 2013-2014, there were two critical issues in the market: propane prices increased dramatically and there were local reports, especially in Ontario and western Quebec, of retail delivery problems.

We now come to the core of our findings: What were the causes of these problems and, given our mandate, was there evidence that anti-competitive activity made these price increases worse? The short answer, based on the evidence gathered and our analysis, is that tight supplies and rapidly increased prices in Canada resulted from a unique combination of the following factors: unusually cold weather, high U.S. agricultural demand, lower than normal inventories, and rapidly growing U.S. overseas exports.

I will explain those factors more specifically.

An abnormally cold winter across the eastern parts of Canada and the United States resulted in a greatly increased demand for home or space heating fuels. An exceptionally large and wet corn harvest in the U.S. Midwest, resulting in greater than normal demand for propane to dry the corn prior to storage. Supply chain congestion and disruptions due to weather and maintenance resulted in less propane being available for distribution and delivery. Rapidly growing U.S. exports of propane to overseas markets caused a reallocation of volumes that might otherwise have been available in Canada and the United States. So the bureau did not find evidence to conclude that anti-competitive activities were the cause of those increases.

I should like to conclude with four more general points.

First, the bureau was pleased to provide advice and information to the government on the subject of the propane industry and to do so in close collaboration with the National Energy Board. Certainly the bureau welcomes the opportunity to provide, on its own or in tandem with other agencies, advice regarding competition and consumer protection issues in the future.

Second, in conducting a marketing study, the bureau does not have the full extent of formal information gathering tools, and so the scope of the bureau's study is necessarily limited to information provided voluntarily by market participants.

Third, should the bureau uncover evidence of anti-competitive conduct within the propane industry—or any industry—that may violate the Competition Act, we will not hesitate to take appropriate action.

Last, if any person has information regarding anti-competitive activities that have occurred or are occurring in the Canadian propane market, or any other sector of the Canadian economy, we strongly encourage them to provide this information to the bureau.

Mr. Chair and members of the committee, thank you again for inviting us today.

• (1210)

[*English*]

**The Chair:** Thank you very much for your presentation, Ms. Dagenais, and thank you Mr. Lang for being here as well.

The bells have started to ring, but we will continue, and we'll hear from the last witnesses.

From the National Energy Board we have Shelley Milutinovic, who is the chief economist for the NEB, and Darren Christie, director, energy markets team, and acting director, energy trade team.

Again, thank you both very much for being with us today. Please go ahead with your presentation for up to 10 minutes.

**Ms. Shelley Milutinovic (Chief Economist, National Energy Board):** Good morning, honourable members of Parliament.

My name is Shelley Milutinovic. On behalf of my colleague Darren Christie and myself, I would like to thank you for the opportunity to appear before you today.

As Canada's energy regulator, the NEB monitors supply, demand, and demand scenarios for energy commodities including oil, natural gas, and natural gas liquids such as propane.

Propane is used for a variety of purposes, from home heating and cooking to agricultural crop drying and fuelling vehicles. It is a common source of heating fuel for residents and businesses not served by natural gas pipelines. Statistics Canada estimates that approximately 1% of Canadian households heat with propane, with the highest rate in Ontario at 2%.

Canadian propane production is centred in western Canada. Approximately 85% to 90% of Canadian propane is produced from natural gas processing, nearly all in Alberta and British Columbia. The remaining 10% to 15% comes from crude oil processing across Canada.

Canadian propane exports are regulated by the NEB and governed by the National Energy Board Act and related regulations. All propane exports must be authorized by a licence or order and must be reported to the NEB on a monthly basis. In recent decades, the propane industry has exported propane by means of short-term orders rather than long-term licences. No propane licences are currently in effect, although the board did receive an application for a propane export licence earlier this year. Between 64 and 72 export orders have been issued in each of the last five years.

The NEB's propane export regime reflects a broader policy trend, initiated in 1985 and reinforced in later years through trade agreements and other measures, toward a more flexible and market-oriented regulatory framework for the energy industry.

To bring our focus in upon recent activity in the propane markets, as our colleagues have stated in their opening remarks, the Minister of Natural Resources and the Minister of Industry requested in February 2014 that the NEB and the Competition Bureau work together to review propane market issues. The resulting report was released in March and the final report in April of this year.

As we described in those reports, during the winter of 2013 initial propane inventories were significantly lower than average and demand was unexpectedly high in Canada and the U.S. Supplies tightened, prices increased rapidly, and there were local reports, especially in Ontario and western Quebec, of retail and delivery problems.

As noted, factors contributing to all of this work were: a colder than normal winter across the eastern parts of Canada and the U.S. that resulted in greatly increased demand for heating homes, livestock buildings, commercial buildings, and others; an exceptionally large, wet, and late corn harvest in the U.S. Midwest, resulting in greater than normal demand for propane to dry the corn down to 15% moisture for storage; supply chain congestion and disruptions due to weather and maintenance, resulting in less propane being available where it was needed for distribution and delivery; and rapidly growing U.S. exports of propane to overseas markets.

Tight supply continued for most of the winter, but prices came down considerably after peaking in late January, and local delivery problems eased. Redirection of supply from the U.S. gulf coast to the U.S. Midwest helped moderate prices in both Canada and the U.S.

In the final report to ministers, we indicated that there was no overall supply and demand imbalance in the propane industry that would create lasting supply and pricing issues or prevent the market from correcting similar issues in the future. However, we noted that propane demand and prices are historically volatile because of the industry's combination of steady supply, fluctuating highly seasonal demand, and complex logistics. For those reasons, unforeseen events such as those that occurred over the winter of 2013-14 will likely continue to cause volatility.

Darren will now speak to the details of subsequent developments in the propane markets.

• (1215)

**Mr. Darren Christie (Director, Energy Markets Team and Acting Director - Energy Trade Team, National Energy Board):** Thank you, Shelley.

Where do we stand today? I'm happy to say that it's largely a good news update.

Two weeks ago the NEB released a market snapshot highlighting the Canadian propane market's recovery from last winter. Wholesale propane prices that spiked to above 76¢ per litre in Edmonton and Sarnia in late January were trading in last week's spot markets at 16¢ per litre in Edmonton and 29¢ per litre in Sarnia.

The most striking change from where we were a year ago is the amount of propane in underground storage. Inventories in Canada, as mentioned earlier, are at an 11-year high, which is some 50% higher than a year ago and 30% higher than the five-year average. In the U.S., total storage is at record highs, up 40% from a year ago. As part of this, it's important to note that the Midwest crop-drying season has largely come and gone and did not result in as large a withdrawal of propane supplies this fall as was expected.

Canadian propane production at gas plants, after a few years of steady declines, has risen 9% in the last three years as producers increasingly target fields with higher proportions of liquids such as propane within the gas stream. Canadian gas plant production in 2013 is estimated at 162,000 barrels per day, and roughly another 30,000 barrels per day is produced at refineries across Canada.

Meanwhile, U.S. propane production has continued to surge, with producers there also targeting liquids-rich gas fields. U.S. gas plant

production of propane has grown 45% since early 2012 to more than a million barrels per day. That is growth of more than 300,000 barrels per day. In other words, in just over two years the U.S. has added about double Canada's annual gas plant production of propane to the North American supply scene.

Alongside this, U.S. overseas exports have also increased, such that about three-quarters of this production surge has left the continent in search of new markets. However, as we saw last winter, when the North American market demands it, those volumes can become available to meet continental needs.

As always, winter weather is the big significant unknown. Last winter's unexpected polar vortex resulted in near-record cold temperatures for a prolonged period of time in key propane regions. In addition to the cold weather's driving up demand, it created logistical challenges in many regions for the movement of propane via truck and rail.

This year, Environment Canada and the U.S.'s Climate Prediction Center call for an average to warmer than average winter in the large propane-consuming regions, such as Ontario, the U.S. Midwest, and the U.S. Northeast. But whatever the coming winter weather brings, higher propane production and the much larger inventories suggest that the propane market is better positioned heading into this winter than it was a year ago.

Thank you, Mr. Chair.

**The Chair:** Thank you very much.

The members have to leave for votes. We're well along in the bells.

I thank all of you, from the National Energy Board, the Competition Bureau, and the Department of Natural Resources. The information you've given us forms a good base, and we certainly will draw on your full reports, for questions and comments for future witnesses. Thank you very much for doing that work on behalf of citizens of the country and for being here today. It is very much appreciated.

Ms. Block.

**Mrs. Kelly Block (Saskatoon—Rosetown—Biggar, CPC):** I'll quickly ask whether there is any will on the committee's part and the witnesses' part to invite them back next Tuesday, just in case someone has a question for these witnesses.

• (1220)

**The Chair:** Would you mind if I pursued that? I hear the comment.

Is it agreed, if it can be done?

We can't assume the witnesses can come back, but perhaps some could. We'll chat about it later.

Again, thank you very much. We will continue this study on Tuesday.

The meeting is adjourned.









Published under the authority of the Speaker of  
the House of Commons

---

### SPEAKER'S PERMISSION

---

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

---

Also available on the Parliament of Canada Web Site at the following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité  
du Président de la Chambre des communes

---

### PERMISSION DU PRÉSIDENT

---

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

---

Aussi disponible sur le site Web du Parlement du Canada à l'adresse suivante : <http://www.parl.gc.ca>